The Housing Chapter is non-mandated; it is provided for information and advisory purposes. The recommendations contained in this chapter to fulfill the stated goals and objectives do not create new legal mandates for local governments or other regional organizations.

Chapter 6

HOUSING

- **Introduction and Purpose**
- **Market Overview**
- **Regional Housing Goals**
- **Advisory Strategies and Recommendations**

A. INTRODUCTION AND PURPOSE

Southern Californians live in a variety of communities. Each community has a separate history, development pattern and vision of future growth. They also offer a distinct set and mix of housing opportunities that evolve and change in response to broad economic and demographic changes. All communities are different from one another and from themselves just 10 or 20 years ago. Families move, people age, family types differ in size and make-up, incomes change, businesses differ, housing ages and new homes of various type get built. A changing ethnic and racial mix of consumers underlies these shifting demands. Balancing the demands of growth and change on the existing built and natural environments presents complex public policy choices and trade-offs for local governments including those governments working cooperatively on mutual problems such as housing Southern Californians.

A fundamental question is how to bring housing costs and decent shelter within the reach of more households as the region develops into the next century. A consensus among voters and the general public is needed on future subregional goals and strategies that are locally specific and realistic so that the housing situation of all Southern Californians can be materially improved at the same time that additional growth occurs. A fair and balanced share of growth is the starting point for achieving a consensus on where, how much, and for whom to build housing. Existing housing cost, affordability, quality and diversity needs must be addressed in the context of improving the availability of housing throughout the region, while reducing environmental impacts.

Reducing housing costs and increasing affordability are important economic and housing market objectives. They are key elements in establishing a competitively priced housing market in Southern California. This is critical to the economic health and social vitality of the region. It enables the Southland to compete worldwide and domestically for jobs and allows it to provide a continuum of affordable housing opportunities that address a diverse and changing set of needs among existing residents and newcomers. As housing is essential to the economic and social well being of a community (and a region), increasing housing affordability is important to recovery and resurgence.

In showing the benefit of housing affordable to everyone, the Housing Chapter of the Regional Comprehensive Plan (RCP):

- **Does not** establish any additional requirements for local government and **is not** a state mandated Regional Housing Needs Assessment (RHNA).
- Presents the 1990 to 2010 projection of the demand for housing.
- Reviews housing market trends, obstacles in achieving political support for affordable housing and other housing issues such as dwelling unit cost, affordability, supply, availability, financing, preservation and building type mix.
- Proposes a set of **advisory** housing goals, strategies and recommendations to address age-related demand, owner, renter, work force and family needs.

B. 1994 MARKET OVERVIEW

- **First-time Home Buyer Gains in Suburbs; Inner Cities Neglected**

Southern California has achieved big gains in home affordability in the last few years. These gains have markedly improved access to home ownership, especially for first-time home buyers. Home purchasers received a boost from the lowest interest rates in 20 years, declining home values due to the recession and new low down payment programs with less restrictive underwriting criteria sponsored by government programs and lending institutions. First-time buyers account for about half of all home sales; up from about one-third of all sales in 1990. But the currently improved affordability level is primarily tied to interest rates that are prone to significant fluctuations (*see* Figure 6-1). In the last 15 years, they have ranged from 17% to 7%. Each percentage point decrease or increase can qualify or disqualify thousands of households.

Higher income renters in suburban neighborhoods moving into first-time home ownership have benefited most from changing market conditions since 1990. A side effect is a vacancy problem in high-end apartments and condominiums. In contrast, a 1994 study by a coalition of community development organizations reported that inner-city rents are often close to mortgage payments in neglected neighborhoods, but revised lending rules are still an obstacle in accessing home ownership (credit history, 5% down payments). For instance, residents in South-Central Los Angeles pay 60% to 80% of the median mortgage costs in monthly rents. While home values have dropped sharply between 1990 and 1994 in the region, prices have remained stable or increased slightly in many inner-city neighborhoods.[1]

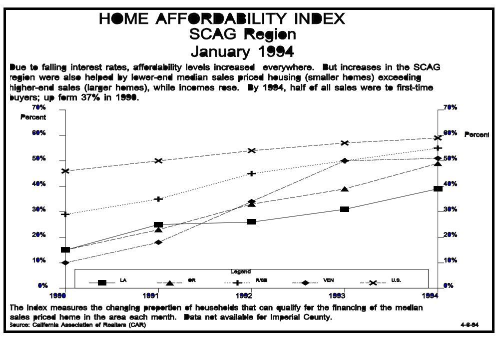


Figure 6-1

• Consumer Confidence Beginning to Rise, but Inventory of Unsold Homes Is Large

In combination with declining interest rates, falling median sales priced homes since 1990 have markedly contributed to increased affordability (*see* Figure 6-2). Sales of relatively lower-priced housing has exceeded sales of relatively higher priced housing resulting in large inventories of expensive homes and a drop in median sales priced homes. A lack of consumer confidence in the state of the economy due to high unemployment levels has also backed up the demand for housing, especially in the trade-up market segment. By the end of 1993, home sales began to pick up as unemployment levels dropped to 8.3% in the region. The national rate of unemployment fell to 6.0%.

[1] **From the Ground Up: Neighbors Planning Neighborhoods, dated April, 1994**

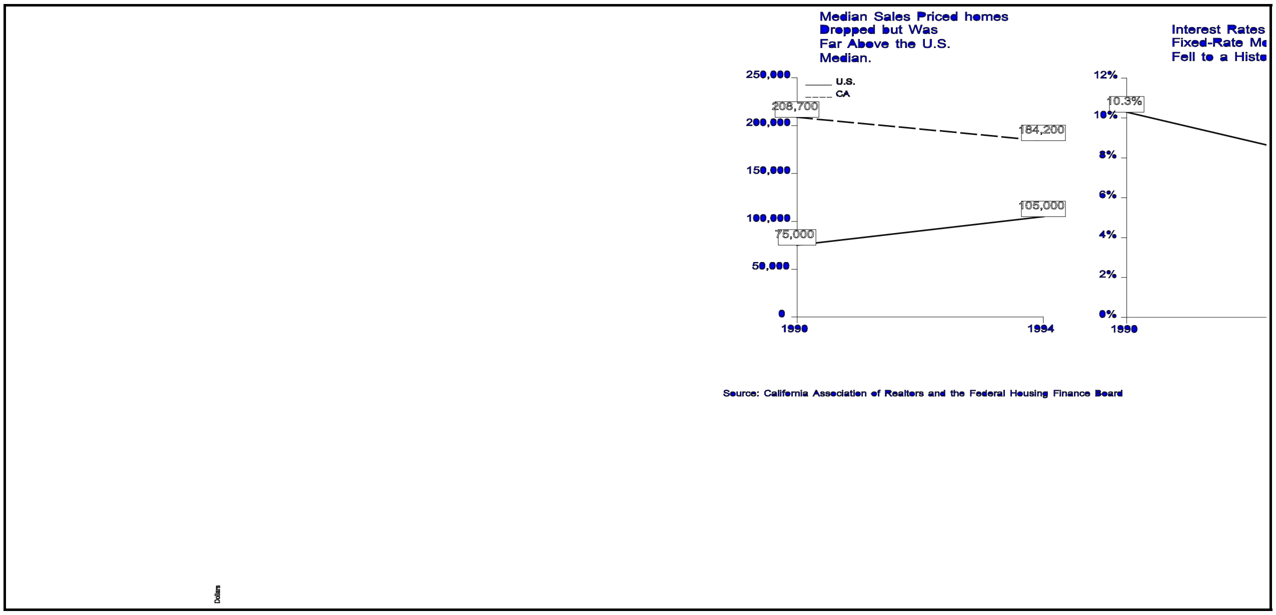


Figure 6-2

- **Vacancy Crisis in High-end Rentals; Lack of Low-end Rentals**

The rental housing market has not benefited from low interest rates or drops in sales price in recent years. Extreme overcrowding in urban neighborhoods contrasts sharply with high vacancy rates in suburban communities. The high-end rental market has a vacancy crisis, and there are not enough rental units for the low end of the market. Compounding this economic problem of a poor distribution of rental housing units are geographic, ethnic, political and regulatory barriers that keep people and families from crossing submarkets in search of housing affordability.

In comments on the draft housing chapter, a nonprofit housing developer noted:

> "Low-income households (60-80% of median) generally can compete in the low-end rental market. It is the very low-income households, especially 40% of median or below, that are completely priced out of the market. This situation creates an interesting dilemma. The economic choices for these very low-income households are either to assume a severe rent burden (e.g. 50% or higher rent-to-income ratio) or to accept overcrowding where two or three families live in one housing unit...Experience tells us that most will choose the overcrowding option."[2]

- **Excessive Payments and Overcrowding Among Very Low Income Renters**

SCAG analysis of recently released 1990 Comprehensive Housing Affordability Strategy (CHAS) data, provided by the Department of Housing and Urban Development (HUD), shows levels of overcrowding and excessive

[2] Taken from a letter written by Joan Ling, Executive Director, Community Corporation of Santa Monica, dated January 27, 1994

payments that are extremely high for very low income renters (50% of median or below). For instance, 98% of all large family related renters; 90% of smaller family related renters and 77% of all elderly renters earning less than half the median income in Southern California (about $22,000 for a family of four) faced a housing problem--overpaying (paying more than 30% of income), overcrowding (more than one person per room) or live in a unit with a physical defect. Large families tended to overcrowd; elderly tended to overpay.

- **Isolation of Poor in Inner cities; Movement of Population and Jobs to Suburbs**

In addition, sharp differences in housing costs between metropolitan areas, subregions, central cities and suburbs contributes to the concentration and isolation of poor households in inner cities. This is in contrast to proportionately higher population and job growth and migration outside of central cities. In order to access less costly and more spacious housing, workers move out of local markets and commute to city jobs, and thus escape urban social problems such as higher crime and poorer quality schools. The demand for low-wage workers is also increasing outside of low-income areas as the service and retail sectors of the economy expand. This makes fair share, higher density and balanced growth housing issues a continuing concern for many jurisdictions, subregions and metropolitan market areas.

- **Impact of Northridge Earthquake; Homeless Population Growth**

The Northridge Earthquake has added more stress to the low-end rental market segment due to the destruction and damage to thousands of older residences, mobile homes and apartments. Among these households large families, the elderly and immigrants suffered the most damage and dislocation. Rent control communities were particularly hard-hit (e.g. City of Los Angeles and Santa Monica). Underlying this market impact is an expanding population of homeless persons that continues to grow from year to year. There is concern that the number of temporarily homeless may expand the permanently homeless population if housing assistance and relocation housing is insufficient. As of February 1994, as many as 21,000 units were declared unsafe, mostly apartments. The most impacted cities in the Los Angeles and Ventura Counties due to the earthquake, taken from a Los Angeles Times article on February 6, 1994, were:

♦ 1) Los Angeles
Population: 3.5 million
Damage estimate: $1.15 billion

♦ 2) Simi Valley
Population: 100,000
Damage estimate: $268 million

♦ 3) Fillmore
Population: 12,000
Damage estimate: $74 million

♦ 4) Santa Clarita
Population: 147,000
Damage estimate: $219 million

♦ 5) Santa Monica
Population: 86,000
Damage estimate: $185 million

- **High Housing Costs in State and Region Exceed National Level, Hurt Economic Competitiveness**

Housing costs in the region are still above the national norm relative to local market incomes. This affects regional economic competitiveness. A 1993 housing cost study by Ernst & Young, Coldwell Banker and the National Real Estate Index examined housing affordability in 70 of the nation's largest market areas based on current mortgage interest rates, household incomes, home prices and rental rates. Composite housing costs were shown as a percentage of disposable median household income spent on high-quality multifamily rentals and on mortgage payments on the average-priced four bedroom single-family home. California had half of the markets identified as the 10 least-affordable with all the surveyed market areas in the SCAG region falling within the 16 least-affordable markets in the country.

Affordability for Amenitized Homes and Apartments
(Composite % of Income Spent for Own and Rent)

Nation's Most-Affordable Housing Markets		Nation's Least-Affordable Housing Markets	
Metropolitan Market	Composite Housing Costs Relative to Income	Metropolitan Market	Composite Housing Costs Relative to Income
1. Kansas City, MO	18.1	1. San Francisco, CA	49.6
2. Omaha, NE	18.4	2. Honolulu, HI	48.6
3. Houston, TX	19.0	3. Los Angeles, CA	40.6
4. Dallas-Ft. Worth, TX	19.5	4. New York City, NY	36.2
5. Denver, CO	20.0	5. Oakland-East Bay, CA	35.0
6. Grand Rapids, MI	20.0	6. San Diego, CA	34.8
7. St. Louis, MO	20.2	7. Orange County, CA	34.3
8. Birmingham, AL	20.6	8. San Jose, CA	34.0
9. Columbus, OH	20.8	9. Boston, MA	31.4
10. Charlotte, NC	20.8	10. Miami, FL	30.7
		16. Riverside-San Bernardino, CA	28.4

Note: A composite of the proportion of income spent on amenitized homes and apartments in 1993 for the 70 major U.S. markets.

Source: Ernst & Young 1993 Housing Cost Study

- **Changing Consumer Base for Housing; Population Growth Still Significant**

Huge movements and shifts in ethnic background in the population are transforming the consumer base for housing in Southern California. This is typical for large maturing metropolitan areas. U.S.- born citizens are leaving the region in large numbers and are largely being replaced by international immigrants, primarily from Mexico, El Salvador and Asia. Regional growth rates have declined from July 1992 to 1993. But the size of the population base in the region is so large that even small percentage increases (e.g. 1.2% annual regional growth last year) still mean huge numbers. About 179,000 people were added to the region in 1993; down from 300,000 added in 1992. But the population increase was higher than that experienced by all but 5 states in the nation. At the same time that the region added almost 1/2 million people in 1992 and 1993, only 65,000 building permits were issued. That is one permit for each 7 persons added. On average, about 3 people occupy each unit in the region.

- **Construction at Historically Low Levels; Multifamily Activity Nearly Halts**

Single family and multifamily housing construction activity, as measured by building permit issuances, are at a historically low level (*see* Figure 6-3). Last year, building permits in California had dropped to their lowest level since the end of World War II. In the SCAG region, less than 30,000 permits were issued in 1993, with only 6,000 for multifamily housing. In contrast, in a typical year, more than 100.000 permits are issued. Foreclosures for both single-family and multifamily housing also increased during the recession.

Multifamily housing activity has almost come to a halt. The permits issued are largely for subsidized housing under government programs, primarily supported by federal tax credit allocations and government subsidies (since 1990). Because a tax credit allocation is key to affordable housing development serving lower income households (40 to 60% of median income), a tax credit allocation is analogous to a permit to build affordable multifamily housing. In 1993, about 4,400 low-income units were assisted by tax credit allocations in the SCAG region; 90% were new construction projects. Consequently, more than half of multifamily development may be associated with subsidized low-income housing production. Both totals are very low in relation to demand. The decline in production, earthquake damage and increase in population combine to cause upward pressure on rents, particularly for low income families, in many markets in the region.

- **Housing Construction May Lag Behind Future Demand**

By 2010, the population in the region is expected to be 20.5 million or six million more than in 1990 (*see* Figure 6-4). While 18% of the region's population lives in the Inland Empire, it will account for nearly 40% of the growth. Increasingly, in the years ahead, population and jobs will migrate to inland areas, drawn by housing, space and cost considerations.

About two million more units than exist today will be needed during the next 20 years. The housing demand resulting from this growth, plus the underlying socioeconomic and cultural shifts, will be substantial. If housing construction lags behind demand, the region may face an increase in illegal or "shadow-market units", a drop in vacancy rates to much lower levels, an increase in household size as young adults delay entry into the market, an increase in overcrowding, less recycling of older units and a bidding up of lower-cost units into higher-cost categories.

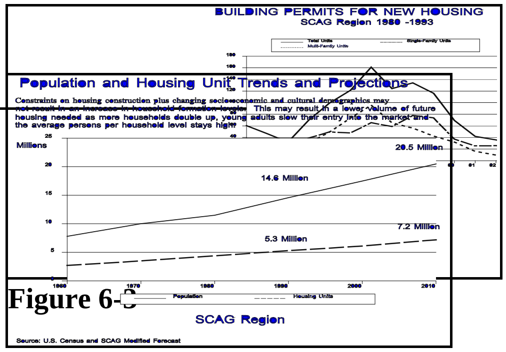


Figure 6-3

Figure 6-4

C. REGIONAL HOUSING GOALS

California has a large share of the nation's high-cost housing. According to the 1990 census, about 40% of all the homes in the nation valued over $200,000 are found in the Golden State, while the state is home to 12% of the country's population. In many urban markets, typical development costs for subsidized rental housing ($100,000 to $175,000 or more per unit) exceeds the national median home value ($105,000 in 1993). Home ownership in the state lags behind the rest of the country 10 percentage points (64% versus 54% in 1990). Bureau of the Census data show that housing cost burdens and overcrowding increased over the past decade for a wide range of households throughout California. **Southern California housing cost problems are part of the state's housing cost problem**. For this reason, state law and policy has a significant impact on locally designed solutions to housing problems.

The regional housing goals provide a planning framework for cities, counties, and subregions so that they can fashion housing strategies that are responsive to regional market needs related to growth and change during the next two decades. It is intended to be flexible, broad in scope, and a tool in relating housing concerns to a host of other issues identified in the Regional Comprehensive Plan (RCP). The goals of the Housing chapter promote the goals of the RCP--a rising standard of living, a healthy and environmentally sound quality of life, and achievement of equity. The following goals provide the basis for the advisory strategies and recommendations:

- Decent and affordable housing choices for all people.

- Adequate supply and availability of housing.

- Housing stock maintenance and preservation.

- Promote a mix of housing opportunities regionwide.

These goals are a product of subregional input and comment as well as feedback on housing issues presented during one or more study sessions on "Housing Southern Californians," which is the working title of the Draft Regional Housing Element dated April, 1993. These study sessions were presented through the Regional Housing Needs Advisory Committee of the Community Economic and Human Development (CEHD) Policy Committee of the SCAG Regional Council. Starting on May 20, 1993, sessions have been held monthly.

The Regional Housing Needs Assessment (RHNA) is the major tool for coordinating local housing development strategies in Southern California. A regional framework is needed to help achieve subregional consensus on what constitutes a local housing strategy that is responsive to market area needs and state mandates. RHNA policies are the backbone of the future strategy to achieve housing related goals and integrate housing issues with other chapters of the Regional Comprehensive Plan (RCP).

According to state housing element law, every city and county has the obligation to address the housing needs of the entire region. It states, for instance, that "...each local government has the responsibility to consider economic, environmental and fiscal factors, as well as community goals set forth in the general plan and to cooperate with other local governments and the state in addressing regional housing needs." State Housing Law also mandates that local governments--through Councils of Governments--identify existing and future housing needs in a Regional Housing Needs Assessment (RHNA). This information is intended as a useful starting point for updating local housing strategies, needs and programs within the context of meeting requirements of state law. It also ensures that there is enough housing to accommodate the people expected to be in the region. But **the mandate to prepare a RHNA has been suspended by the legislature due to a lack of funding.** However, local housing elements are to be updated based upon a statutory schedule adopted in 1993 (AB 2172 Hauser). The updates are due in June of 1996, 2000, and 2005.

Because RHNA policies are so important in determining the future strategy for achieving housing related goals and integrating housing issues in the RCP, Subregional input was focused on improving the RHNA distribution of need and reforming State Housing Law. This subregional input resulted in a set of legislative recommendations and guiding principles being adopted by the CEHD Committee and SCAG Regional Council. These recommendations were incorporated in a letter dated January 1994 to Governor Wilson from Gaddi Vasquez, SCAG President and Orange County Supervisor.

State Law

"...the share of a city or county of the regional housing needs includes that share of th housing need of persons at all income levels within the area significantly affected by general plan of a city or county. The distribution of regional housing needs shall...tak into consideration market demand for housing, employment opportunities, th availability of suitable sites and public facilities, commuting patterns and publi transportation facilities, type and tenure of housing need, the loss of units contained i assisted housing developments...that changed to non-low income use through mortgag prepayment, subsidy contract expirations, and the housing needs of farmworkers an shall promote efficient commute patterns and the provision of housing close t employment opportunities or public transportation facilities. The distribution shall see to reduce the concentration of lower income households in cities or counties whic already have disproportionately high portions of lower income households."

Section 65584 of the California Government Code

The Regional Council and Community, Economic and Human Development Committee (CEHD) recommendations to improve state housing law are as follows[3]:

- Provide a mechanism to appeal state-to-region allocations of statewide need, when appropriate.
- Base local compliance on performance and production.
- Link available resources, market conditions and performance expectations.
- Make housing resource distributions consistent with statewide housing needs.

[3] There was much consensus by the subregions on the first six of these issues and several strongly supported allowing transfers of resources and fair share credit.

- ❍ Allow a subregional role in allocating construction need.
- ❍ Streamline paperwork and reduce data required.
- ❍ Allow regions to prepare comparable housing market profiles to facilitate local and subregional needs analysis and performance review.
- ❍ Integrate federal and state affordable housing planning requirements through the housing market profile.
- ❍ Allow transfers of resources and fair share credit between local governments in the same commute shed or subregion.[4], [5]
- ❍ Ensure compliance through incentives and clear performance standards.
- ❍ Allow local certification of compliance and regional/subregional mediation when conflicts arise.
- ❍ Enhance state role as technical assistance and resource provider for local programs and projects.
- ❍ Limit State Housing Element review by the Department of Housing and Community Development (HCD) to poor performing jurisdictions.[6]
- ❍ Remove litigation as the primary basis of enforcement.
- ❍ Provide state funding for the housing need and decision-making process.

D. ADVISORY STRATEGIES AND RECOMMENDATIONS

The following advisory strategies and recommendations correspond to the four regional housing goals and the following set of guiding principles related to the improvement of State Housing Element law. They also underlie the basis for a workable regional solutions to housing dilemmas facing the region. These strategies are not all-inclusive and they do not preclude other goals and strategies to address local shares of subregional need. The guiding principles are as follows:

- **Financing and Incentives** - Substantial funding incentives and financing should be sufficiently high to encourage and enable a local commitment to meet fair share needs for residents and newcomers.

- **Fair Share** - All communities, counties, and subregions share in the responsibility to make equitable and substantial commitments to providing adequate and affordable housing.

- **Balanced Growth** - Flexible growth shares are needed to support employment and residential growth. New local housing opportunities should match the wages, salaries, or budgets of new employees and other residents, provide a mix of affordable building-type options that support social diversity goals, and be responsive to job-based housing needs emerging in neighboring areas as well as in the locality.[7]

- **Comprehensive Planning** - The pattern of housing location should support regional goals in all planning areas, provide for a more compact and balanced urban form and preserve the natural environment.

- **Local Control** - Local governments should participate in the housing allocation process and retain the

---

[4] South Bay Cities subregion recommended that cities also receive credit for illegal units toward their fair share goal.

[5] SELAC subregion recommended that facilitating transfer of housing funds and credits between jurisdictions in meeting affordable housing targets be part of a subregional housing approach regarding overcrowding and impaction of lower income households.

[6] Many subregions recommended the state should have a limited role in housing element review.

[7] Subregional input: VCOG and Inland Empire area expressed strong support for this principle.

authority for site and development approval.

- **Subregional Role** - Regional allocations should reflect an interactive process allowing for a maximum of local input, through subregional associations of local governments, in the development of balanced growth and fair share housing need assignments or transfers.

- **Consensus and Commitment** - The result of the process should be clear to the public and development community so that housing costs can be held down, affordability improved, and a wide mix of housing choices provided to meet existing and future needs.

1. Goal: Decent and affordable housing choices for all.

Strategy 1: *Housing choices in line with incomes of work force.*

Job growth and an increase in per capita income will be critical factors in restoring consumer confidence and spurring housing demand, construction lending, and economic recovery (*see* The Economy chapter)[8]. <u>Special attention needs to be given to education and training to ensure the work force can access better paying jobs and afford better housing</u>.

High housing costs pose a barrier between county and subregional markets that are tied together by the transportation system. This occurs even when the affordability index rises (the relationship of the typical price of homes sold to median area income).

For instance, a sharp rise in housing affordability in expensive submarkets means the levels of typical incomes in that submarket have improved relative to the typically priced homes sold during the time period. But the prices may be out of reach of employees residing in major markets outside the area or the region and outside the reach of households who moved from the expensive area to find affordable housing elsewhere. The lowest-priced and most affordable homes are found in the Inland Empire (San Bernardino and Riverside Counties), north Los Angeles County and in Imperial County (non-metro area). The most expensive housing is found in coastal plain areas of Ventura, Los Angeles and Orange counties (*see* Table 6-1).

A balance of affordable housing opportunities, given the expected wages and salaries of tomorrow's jobs, will challenge every area of Southern California (*see* Figure 6-5 and Table 6-1). Significant housing cost and availability differentials among counties and subregions encourage workers to move out of local markets and commute in from other areas along with a desire to isolate themselves from urban social problems.

Continued unbalanced growth will contribute to mobility, congestion, and air quality problems, increased fuel consumption and energy use. Many employers are leaving and many employees refuse transfers to the region due, in part, to high housing costs and stressful commutes. The challenge of the next two decades is to bring housing costs within reach of more of the work force and to reduce cost and sales differentials between metropolitan areas and subregions.

---

[8] *see* The Economy, Chapter 2, for a discussion of strategies to increase per capita income.

1993 Area Median Incomes in Relation to Home Price

County	Area Median Income	Average Home Price
Imperial	$27,700	$101,450
Los Angeles	$43,000	$234,000
Orange	$56,500	$242,500
Riverside	$41,100	$146,400
San Bernardino	$41,100	$135,000
Ventura	$55,200	$234,400
Region	$45,347	$209,500
National	$39,700	$133,500

Home prices are a composite of new and existing sales.
Source: HUD, SCAG and TRW

Tal

ice an

N

S

DEMAND FOR HOUSING BY SUBREGION

Fastest Growing Areas 1990 - 2010

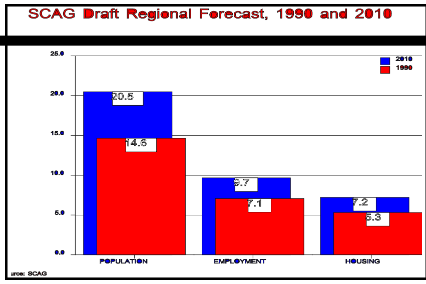


Figure 6-5

Subregion	1990	2010		**1990-2010**
North LA County	84,000	211,000	127,000	**151.1%**
WRCOG: W. Riv.	337,000	705,000	368,000	**109.1%**
Coachella Valley (CVAG)	126,000	249,000	123,000	**97.6%**
Imperial County (IVAG)	37,000	69,000	32,000	**86.4%**
San Bernardino Co. (SANBAG)	542,000	916,000	374,000	**69.0%**
VCOG: LA County Cities	52,000	80,000	28,000	**53.8%**
Riv Remainder	21,000	32,000	11,000	**52.3%**
VCOG: Ventura County	228,000	314,000	86,000	**37.7%**
LA City	1,345,000	1,676,000	331,000	**34.6%**
Orange County	875,000	1,092,000	217,000	**24.8%**
Arroyo Verdugo	209,000	247,000	38,000	**18.1%**
San Gabriel Valley	448,000	520,000	72,000	**16.0%**
West Side Summit	117,000	131,000	14,000	**11.9%**
South Bay Cities	302,000	336,000	34,000	**11.2%**
SELAC	604,000	670,000	66,000	**10.9%**
SCAG Region	5,327,000	7,248,000	1,921,000	**36.0%**

Source: SCAG

Recommendations

- State Housing Law should be reformed and refocused from planning issues to housing production that is in line with the affordability needs of the work force and within the budgets of households at every income level.[9]

- Local shares of growth should be flexible, balanced and fair so that a supply of housing within a broad range of prices is made available in each community and subregion.

Strategy 2: *Meeting future age-related housing demand.*

In the 1980s, the region experienced increases in population which averaged 300,000 people per year while the number of new residential permits issued for housing averaged 97,000 units per year. These permits resulted in an average of 87,000 new units added during this period. Permit levels exceeded housing units because not all permits are used and there are adjustments to the housing stock such as replacement units, second homes,

[9] CEHD Policy Committee and Subregions

vacancies, conversions, and illegal units. To meet the forecasted demands for housing by 2010, the region has to generate 120,000 permits in order to produce the more than 100,000 units needed on average.

Average household size also affects construction activity and need. When average household size in the region is small, more housing is needed than when it is large. For instance, one million added population housed with three people per household would occupy 333,000 housing units. However, at 2.5 people per household about 400,000 units or 20 percent more are needed. Households consist of families and individuals occupying units. Projections of household formation (headship) rates by age, ethnicity, and tenure and the resulting estimate of household size are derived from SCAG population projections.

The key linkages between population and households are age-related housing demands and underlying shifts in the ethnic and racial make-up of the population. Adults may delay entry into the market for several reasons including housing availability, cost, and affordability. Matching housing opportunities with the budget and household size needs of tomorrow's population will be a major challenge in the years ahead. <u>Affordability refers to the spectrum of housing supply that is in line and in balance with the range of income levels of owners and renters expected to reside in the market area.</u> Construction need by income group and tenure is provided in the Regional Housing Needs Assessment (RHNA). The 1988 RHNA identified 900,000 lower-income households paying more than 30 percent of income for housing while the 1990 Census identified 1.2 million. Both the 1988 RHNA and the 1990 Census identified almost 40% of all households as lower income, putting future housing opportunities for this group at 800,00 units between 1990-2010 or an average of 40,000 per year.

Constraints on housing construction may not allow the levels of development projected on the basis of need. A number of factors may interfere with construction activity, such as the lack of job growth, vacant land supply, capital availability, consumer affordability and political sentiment toward growth restrictions in built-up areas.

Time constraints are also important since 100,000 units are needed a year between 1990 and 2010, yet, less than 40,000 permits a year have been issued in the last few years. If permits are considered a leading indicator of future construction activity, the level of building permits issued in recent years portends a housing shortage once population growth absorbs the existing supply of new housing. A number of adjustments in the housing market surely will occur. Among them are:

■- Insufficient available vacancies to allow for residential mobility and choice.

■- Older structures will continue to be used longer in the cycle of single-family residences becoming rentals, then dilapidated and later demolished to make way for new construction of apartments or condominiums, or apartment structures themselves reaching advanced age.

■- More overcrowding will result from extended use of older structures, contributing to urban and even suburban blight.

■- A crimp will be put on the rate of independent household formation. Adult children will remain longer in the parental home, and first-time apartment dwellers will be forced to wait longer to be able to acquire their own single-family residence, town house or condominium.(*see* Figure 6-6).

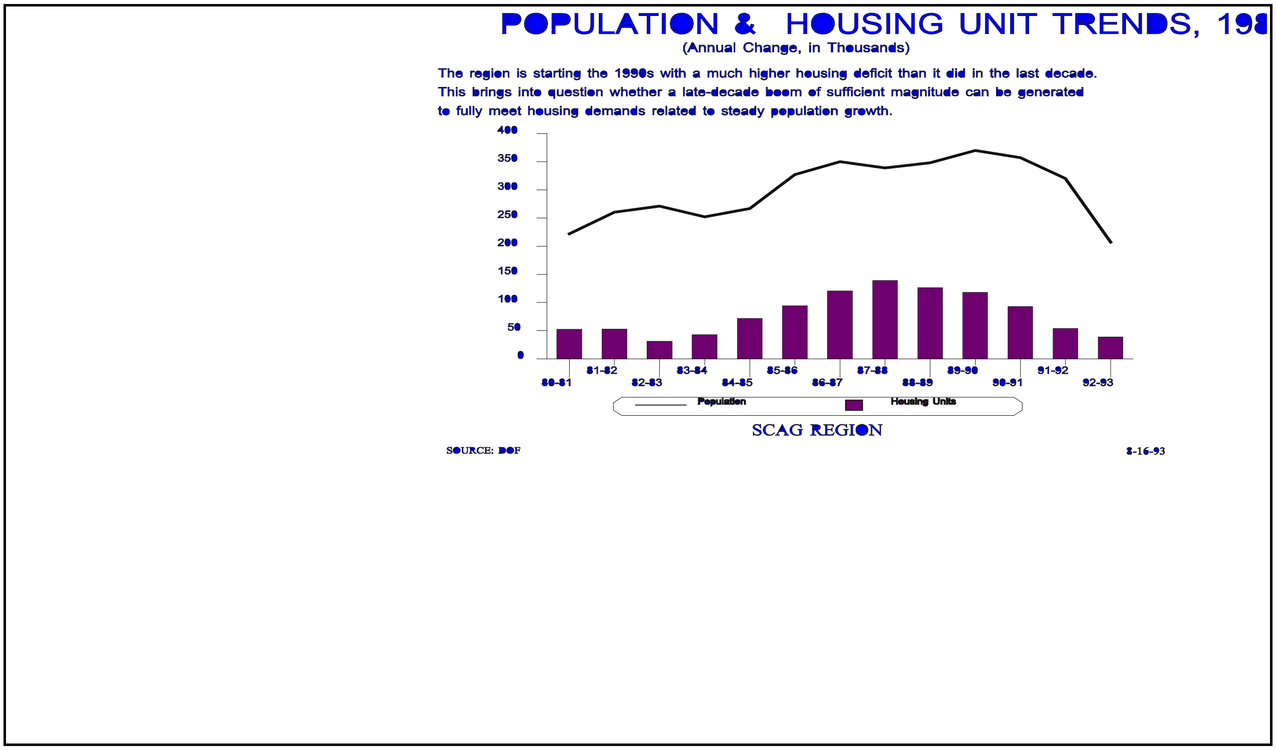


Figure 6-6

Lack of housing availability will have the strongest impact on "baby boomers" born from 1945 to 1964. These households will have a major influence on growing housing requirements as they move into middle age, when incomes are highest and move-up demand greatest. Parents of "baby boomers" will pass into retirement years. They have different housing demands and represent another growing segment of households (*see* Figures 6-7, 6-8, *and* 6-9). The increased life span of the elderly also will open up a whole new market for a spectrum of housing services to meet the dependency needs of those 75 years of age and up.

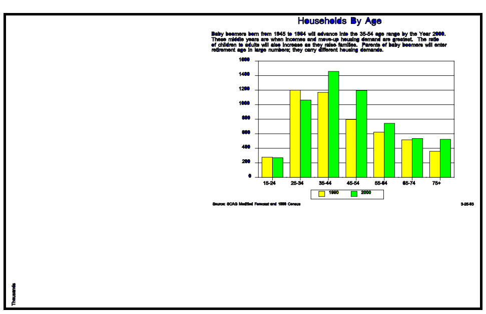
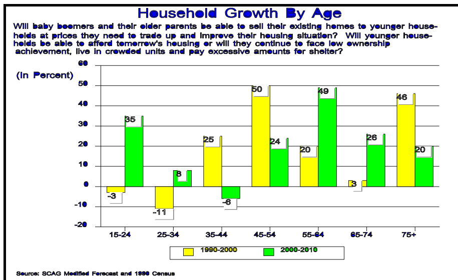


Figure 6-7

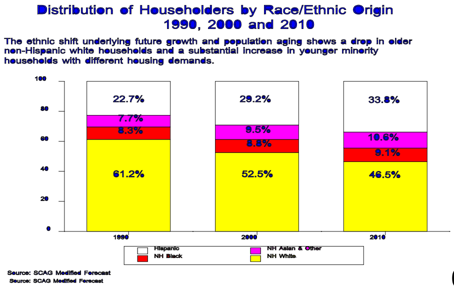
However, the rate of increase in young households age 15-34 will slow down and lessen rental housing demand. The rapidly growing number of children will also have a significant impact as the general population matures. This increase is due to baby boomers reaching parenthood and due to rapid immigration of young adults of parent age. They are a significant share of the average household size in the region.

Overall, total households will increase 40 percent over the forecast period (to 2010). Of the three age groups mentioned above, baby boomers and the elderly will grow the most during the next two decades. But younger households in the 15-24 age group will be a significant force in the market place beginning in the 2000-2010 period. This younger group will be much more ethnically diverse than in the past.

The rise in younger households will occur at the same time that a large segment of the "baby boomers" will reach their pre-retirement years (age 55-64) when households "cash out" of their single family homes and begin to consider new housing and location options.



0



0

Figure 6-9

Figure 6-8

Recommendations

- Regional housing allocations should reflect an interactive process allowing a maximum of local input through subregional organizations so that housing assignments are credible and realistic.

- Neighborhood or community-based housing advisory councils can help local governments adopt plans, policies and ordinances that accommodate enough housing, settle infrastructure issues and environmental concerns during the local housing element update process, and before builders submit development proposals.

- Subregions and communities should develop information (database) on local demographics and housing stock changes in their communities, including rising levels of minority households, and relate these to age group and worker housing demands in order to create a positive political environment for locally designed solutions to housing needs.

Strategy 3: *Address the need for affordable housing.*

What Is Affordable Housing?

In the housing chapter, it is defined as housing available for purchase or rent by any hous with less than 35% of their income. The emphasis here is on defining housing affordabil broadly as possible so that it refers to a spectrum of housing supply that is in line with a range of income levels. For market comparisons, median home price and rental cost compared to the typical local area household income.

Because lower income households, particularly very low-income renters, have the h incidence of affordability problems, they are treated separately. In this case, affordabi defined consistent with state and federal housing regulations. These rules define affordabil paying no more than 30% of lower incomes for shelter, as follows:

Very low = 50% or less of Area Median Income
Low = 50-80% of Area Median Income
Area Median Income = $45,347 for the SCAG Region (1993 dollars)

The issue of housing affordability is related to housing costs in general, and consumer spending in particular. A second dimension of the affordability issue is the availability of housing for needy populations, including very low-income renters and first-time buyers. The affordability of housing is measured in relation to the proportion of household income spent on housing by owners and renters and different types of households occupying units at one point in time and in one period compared to another. The latest information for this analysis is 1980 and 1990 census data.

The majority of Southern Californians live comfortably, with more than two rooms per person and two-thirds do not pay excessive amounts for shelter. But compared to just 10 or 20 years ago and to the rest of the country, the level of households with housing problems increased.

Among all households, the proportion of owners and renters paying less than 20% of income for housing dropped markedly between 1980 and 1990 while those paying above 35% of income increased significantly. The incidence of housing affordability problems among lower and higher income households increased from one in four households in 1980 to almost one in three households in 1990.

Among specific groups, rising housing costs in relation to income contributed to the increase in excessive payments among renters (*see* Figure 6-10), a marked increase in overcrowding (*see* Figure 6-11), lower home ownership achievement among minority and young households, and a rise in homeless people. According to the 1990 Census, the most widespread housing problem in Southern California was home affordability and the hardest-hit segments of the population were families that rent, and elderly renters. Eight-five percent of all households making excessive payments for shelter were non-elderly households (primarily renters).

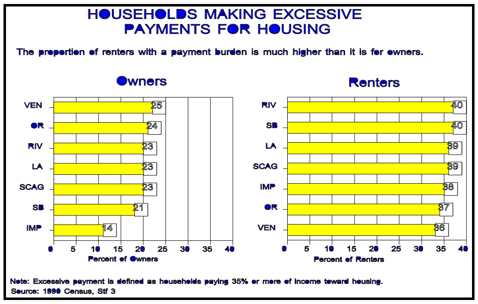


Figure 6-10

A problem related to excessive payments is overcrowding (more than one person per room, excluding bathrooms and hallways). For instance, low-income families, immigrants and persons unable to afford decent housing turn to run-down apartments, garages and other illegal spaces just to have a place to live. In other cases, young renters double up and share expenses or return to the "nest" to save money. Households lacking consumer confidence in the economy may also postpone trading up to larger homes that adequately meet the needs of their family size because of the concern over taking on a larger mortgage payment. Overcrowding represents a backing up of demand related to housing affordability.

Almost 16% of all households in Southern California live in overcrowded housing compared to 8% in the Bay Area of Northern California and 5% of all households nationwide. The counties of Imperial and Los Angeles ranked first and second among all counties in California in terms of percent of all households living in overcrowded conditions (21% and 19% respectively). According to the state Housing and Community Development Department (HCD) half of all persons living in overcrowded units in the state are children.

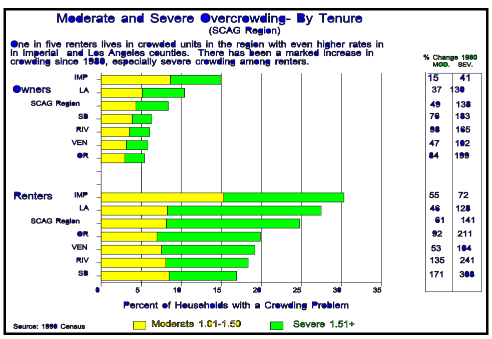


Figure 6-11

Among overcrowded households, the majority were severely crowded. Severely crowded units (more than 1.5 persons per room) rose from 202,210 in 1980 to 485,653 in 1990, a 140% increase. This situation finds a four-room apartment, with two bedrooms, a living room and a kitchen, home to more than seven people. The fastest-growing incidence of severe crowding is in suburban area counties outside of major metro areas and inner cities.[10]

Urban core areas of the region had the highest number and concentrations of renters that were cost-burdened and households that were overcrowded (*see* Figures 6-12 *and* 13). The rise in excessive payments for housing and severe crowding was accompanied by an enormous increase in housing prices in Southern California during the 1980s. Both values and rents increased far above state and national medians and much faster than consumer incomes. Between 1980 and 1990, values soared 141% and rents increased 128%. In contrast, the median household income rose 100% before discounting for inflation.

Based on the 1990 Census the SCAG region had some 4.9 million households. Of the 4.9 million households, 1.9 million were very-low-and low-income households and almost 1.2 million spend more than 30 percent of income for shelter. This is an increase of 30 percent since 1988. The number of very-low-income households is rising absolutely, while lower-cost units have been declining due to the demolition of older units; increasing values and

[10] SELAC subregion suggests that a cooperative program to address this issue should include considerations such as local ordinance development and code enforcement for public health and safety, and adequately funded programs to increase housing supply, and influence immigration policy to reduce pressure on the available housing supply.

rents taking existing units out of the affordable category; conversions of some rentals to condos; boarding up of some units in blighted areas, the expiration of low-income-use restrictions on government assisted housing, and a drop in subsidized unit production.

As a result of low interest rates and falling home values, home ownership affordability has improved for home buyers, especially higher income renters looking for first time home buying opportunities. But the trade up housing market has suffered due to the economic recession. Very low income affordability problems may have worsened due to the recession and the impact of the Northridge Earthquake on the availability and affordability of older, less expensive multifamily housing that was either destroyed or badly damaged. It is expected that needed capital repairs and seismic safety improvements by owners will be passed through to tenants in the form of higher rents. Consequently, while home ownership has become more affordable due to market forces, public policies and resources are needed to help market forces deliver affordable housing, particularly for very low income households.

Figure 6-12

Figure 6-13

Recommendations

- Expand tax and other incentives and maintain stable budget appropriations for federal Community Development and HOME housing programs so that there is no drop in jurisdictions receiving entitlement appropriations to house poor and low wage workers because local, state and private efforts are by themselves insufficient.

- Communities should consider creating public/private and non-profit partnerships for affordable housing and construction jobs.

Strategy 4: *Home ownership for young and minority households.*

Cyclical momentum of the housing market in the 1990s combined with changes in some of the variables affecting first-time buyer activity resulted in the surge of recent home buying. This is important, given past home ownership trends.

Low interest rates, falling home prices, a wider range of homes to choose from, more flexible underwriting criteria with lower down payment requirements and modest rent increases all combined to encourage more middle-income renters to buy their first home. First-time buyers entered the market in record numbers and made up about half of all home buyers in California in 1992 and 1993, up from 37% in 1990.

Many were able to buy homes with lower median incomes than in the past. But the median annual income of first-time buyers was $50,000 and this was higher than the regional median income of $45,350 for all households in 1993. The median sales price was $160,000 and the median size home purchased was 1,350 square feet.

High housing costs relative to income still prevent modest income renters and minority households from sharing equally in the rise in first-time buyer opportunities. But other factors have proved to be even more important in predominately minority communities. In a 1994 study by a Coalition of Neighborhood Developers (CND) working in 10 of the greater Los Angeles area's most-needy communities found that:

> "...the most consistent message...was resident demand for expanded home ownership opportunities...CND research reveals that the chief barrier to home ownership is credit, not income...over 50% of the residents pay rent equal to a mortgage in their communities."

Past trends indicate home ownership is becoming more elusive for the young (*see* Figure 14). Several barriers have emerged to prevent younger renters from achieving home ownership earlier in life. Some of these factors are: wage levels, housing costs, sharp differences in cost between markets, older owners holding on to their homes longer, interest rates, down payment requirements and underwriting and credit history. Underlying these issues is a rising minority population that is changing the face of housing consumers' preferences.

Home ownership rates stayed about the same between 1980 and 1990 for the population as a whole. About 54% of all households owned their home. But trends showed substantial declines in ownership by younger adults, while gains were registered by the elderly (*see* Figure 6-15). There were also substantial variations of

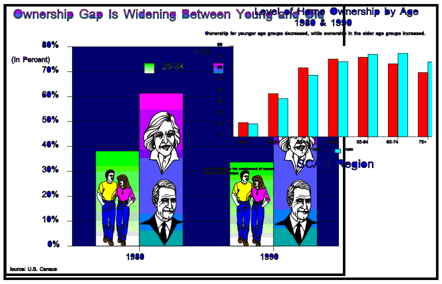


Figure 6-14

Figure 6-15

ownership achievement by geographic area, and (*see* Figure 6-16) racial or ethnic background. Non-Hispanic Whites and Asians saw their ownership levels nudge upwards to 62% and 54%; whereas Hispanics and non-Hispanic Blacks saw their ownership levels dip slightly to 39% and 38%.

For some, housing conditions improved. Households (over 55 years of age) saw their ownership levels increase. This was not a result of entering into home ownership for the first time. Instead, as the population matured, older residents carried dwelling equity with them from an earlier era (post-World War II through the mid-1960s) when home ownership was more accessible to the young (25-44 years of age) than it was in (Figure 6-15) the 1980s. About one-fourth of all homeowners in the region were 65 years of age or older in
1990, while they make up about 18% of all households. Almost 75% of all senior households (65 years or older) own their own homes.

Between 1980 and 1990, the percentage gap in home ownership between the young, (25-34 years), increasingly minority households and the old (65 years) plus widened. Building the equity stake of younger, primarily minority households in Southern California is critical if they are not to track well below their predecessors in the future. Elderly renters are very vulnerable to housing problems related to cost burden since they typically live on a fixed income. Without the equity cushion of home ownership, senior citizens who rent and have housing problems may grow substantially while at the same time home ownership for the young stays relatively low. Keeping a balance of home ownership opportunities that fit the entry-level needs of young members of the work force as well as the trade-up needs of older members will be important factors in attracting jobs to Southern California. Business location decisions are influenced by the amount of affordable home ownership opportunities available to the work force.

Figure 6-16

Recommendations

- Communities should monitor bank lending activity and goals for addressing Community Reinvestment Act requirements for credit needs of mortgage deficient communities; participate in permanent financing with the private sector, and provide public support for potential home buyers most in need.

- Communities should support federal, state and local financing programs for first-time home ownership and initiatives that enable lower-income households to qualify for home purchase financing and down payment assistance.

2. Goal: Adequate supply and availability of housing.

Strategy 1: *Reducing major components of new housing cost.*

Rising housing production costs and economic uncertainty are preventing the development of an adequate supply of affordable housing choices for many Southern Californians. These rising costs are partially due to political and regulatory barriers and the structure of local government funding (property and sales tax systems). They have a material effect on land cost and availability (*see* Figure 6-17). Housing production costs are also affected by cost of construction materials, labor, and capital financing.[11] A broad-based effort needs to be taken to reduce costs in every major component if a competitively priced housing market in Southern California, relative to the rest of the nation, is to emerge in the decades ahead.

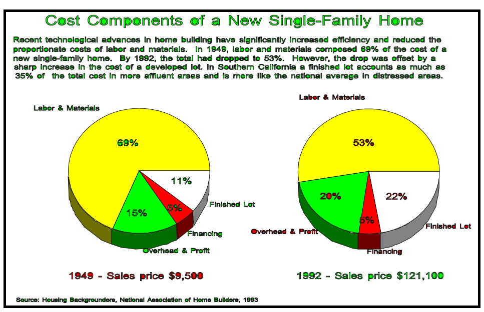


Figure 6-17

Only Hawaii has higher housing costs than California. About 40% of all the homes valued above $200,000 in the nation are found in California. Despite the recession-related deflation in home values and moderation of rents, California housing markets are still among the least affordable in the nation. Southern California housing cost problems are a reflection of the state's housing cost problem.

In 1974 Southern California median home costs were similar to the rest of the United States. Since then, the median home prices in Southern California compared with the rest of the United States have doubled. At the same time, regional real per capita income growth declined in the 1980s compared to the 1970s. Rising costs in relation to income resulted in an affordability crisis.

The major determinants of rising housing cost in California are the cost of land and the cost of capital. Land costs are uniquely affected by local government action in the area of land use control and policy. Constitutional limitations resulting from the passage of Proposition 13 placed restrictions on municipal and infrastructure finance that resulted in widespread use of housing impact fees and development exactions. Land availability for housing affordable to lower-income households has been limited due to voter apprehensions about higher density, lower-cost housing and its impact on nearby property values and by fears about increased social

[11]Ventura County Planning Department letter on RCP Discussion Document, Housing chapter.

problems. Because low-income housing is expensive to produce and maintain, the availability of low-cost financing, public subsidies and tax incentives for private investment is also critical. Unfavorable financial conditions for the construction of affordable housing can offset any benefit of increased density or subsidized land cost and vice versa.

a. Land Costs and Availability

Underlying the rise in values and rents in the 1970s and 1980s was an increase in land costs spurred by an enormous demand for buildable lots due to population and economic growth. The speculative demand for land was enormous. Builders bid up the price of developable land in an attempt to gain inventory, while local governments placed limitations on supply due to quality of life and environmental concerns. During cyclical boom periods (1975-81 and 1982-89) land assembly lagged behind demand, and costs went up. These costs were passed on to home buyers and renters in the form of higher prices or, in the absence of market demand, developer profit margins were reduced and future market value of land moderated.

Prices for parcels and fees drive up housing costs in Southern California. In affluent areas, land costs make up 35 to 40% of every new house or apartment. That is more than labor, materials or financing. Land would constitute an even bigger share of housing cost except that builders increase home size and amenities to offset the high cost of land, fees and exactions. This creates a strong disincentive for the provision of smaller, less expensive homes.

Available land for low- and middle-income housing is scarce because of sensitive political issues related to striking a balance between local environmental, community character, and public facilities goals and the provision of higher density, affordable housing. Higher densities applied to either single family or multifamily housing can improve affordability of housing because fixed per unit land and other costs are lower when spread over more units. It is also a basic technique for increasing the supply of housing. But higher density development requires good design to maximize the number of units and blend into nearby developments and the neighborhood. It should also be situated close to major roads and transit facilities to minimize traffic impacts.

b. Cost of Capital

The passage of Proposition 13 in 1978 attempted to offset some of the impact of rising housing values on property tax assessments. It provides for property tax reassessment only when a property is sold, and limits property tax assessments on existing homes to two percent a year. This resulted in a two-tier system, one for older residents in existing properties and one for younger newcomers buying homes. There is also an unintended disincentive for older residents to hold on to their housing that is often too large for their needs, fearing a higher tax burden if they move to a smaller home.

Buyers of new homes have been hit especially hard by Proposition 13. The fiscal impacts resulted in the adoption of infrastructure exactions and impact fees. While taxes were cut on existing homes, newcomers in new tracts were assessed at their full construction cost and new fees were added for streets, schools, parks and other facilities that property taxes previously funded. Some estimates put these fees at between $10,000 to $30,000 per unit or more on costlier homes.[12] But these fees do not provide the homeowner with any services that existing residents

[12] State Housing and Community Development Department (HCD)

do not already receive. Plus, if home values do not go up, which is likely during the next few years, they will not benefit from a lower tax bill than subsequent newcomers to the neighborhood.

Assuming that new development pays only its fair share of capital improvements and in the absence of fees and exactions, what useful alternatives are there for the local provision of public facilities, mitigating traffic congestion, protection of the environment and agricultural resources, and the protection of neighborhoods? The lack of alternatives to growth management-related fees and exactions for public infrastructure is part of the larger problem of the adequate financing of local government.

The limits on property tax assessments also put a great fiscal strain on local governments and tilt the competition for available land in favor of sales-tax-generating uses rather than service-consuming uses such as housing in built-up areas. Some experts contend that a home would have to be valued at $300,000 or more to generate enough in property taxes to pay for residential services.

In outlying areas, Proposition 13 encouraged urban fringe areas to court population growth by adopting pro-development polices and offering entry-level homes to commuters. This encouraged the development of a property tax base for the locality, extended a lifestyle choice to the home buyer and offered the prospect that some day jobs will follow. But it also encouraged sprawl and attendant problems related to environmental protection, endangered species habitat, service provision (e.g. school fees), infrastructure, and congestion.

Proposition 13 also spurred the creation of half the states redevelopment agencies and project areas. Among cities of more than 50,000 population, more than 90% had redevelopment agencies. Creating a redevelopment agency is one way a locality can keep property tax revenue resulting from new development. As a percent of the tax base, almost 10% is devoted to redevelopment in Southern California.

Section 33000 of the Health and Safety Code authorizes the use of tax increment financing, eminent domain, and other powers to achieve economic revitalization goals in defined project areas. The legislature created the redevelopment law in 1951 and put in place one of California's most successful and controversial programs. Annually, redevelopment agencies take in more than $1 billion of which 20% must be set aside for construction and rehabilitation of housing for low- and moderate-income households.

c. Cost Reduction through Regulatory, Administrative and Procedural Reform

Regulations, according to State HCD, add up to 80% of a new home price.[13] The California Building Industry (CBIA) in its <u>Policy Statement: Affordable Housing</u> states that: "CBIA believes that housing which is affordable to everyone can be achieved when the three variables: fees, scarcity and entitlement risk, are brought under control." Permit streamlining, modifications of zoning, development standard reform, fee waivers for priority projects (e.g. affordable housing developments), environmental regulation issues and recognition that administrative delays add to housing costs, have combined to make facilitation of the development approval process a major issue for government, builders and the state. Unanticipated project delays are a major cost-inducing feature of local land use control. Delay increases price when applications to build are braked by the slowness of the approval process and lag behind demand, causing prices and rents to rise. In a recessionary period, delay increases uncertainty among builders and lenders. Unanticipated delay increases carrying costs for

[13] State HCD and the Claremont Institute.

land, planning and other overhead as well as interest and opportunity costs that put upward pressures on price. Because of this, jurisdictions have reviewed their development procedures and streamlined their local process. Proposals to reform state environmental and housing planning law have also been the subject of much debate.

The modification of regulatory procedures and restrictions need not result in the weakening of environmental and other sound local planning standards. For instance, the California Environmental Quality Act (CEQA) appears to emphasize a project by project-oriented review system rather than one that accounts for jurisdictionwide or regional environmental costs and impacts. Recent revisions to CEQA allow site-specific Environmental Impact Reports (EIR) to be limited in scope if the project is consistent with the general plan or a community plan (*see* Master Environmental Impact Report).[14] This option should help reduce duplicative project by project reviews.

The structure of local government finance, voter resistance to tax increases and public apprehension of affordable housing combine to make housing cost reduction and compliance with state[15] or federal mandates,[16] difficult. However, economic growth and recovery are predicated, in part, on more affordable and competitively priced housing. Without it, higher labor costs, limited affordable housing supply and longer commutes will make the region less attractive to employers and employees. Households also will find housing taking up even more of their incomes than it does today.

Recommendations

- There must be reliability and stability in local government financing in order to create a political environment supportive of affordable housing at the local level.

- The state structure of financing government should be re-examined because of the side effects of using impact fees and exactions to offset reduced tax revenue.[17]

- The state should establish a new infrastructure financing entity.

- Support reform of school financing so it is not dependant on new development in high growth, tax resistant areas.

- Communities should try to the extent possible to reduce the major components of housing cost such as ensuring zoning sufficient land for all housing types (including medium and higher density, where appropriate to meet balanced growth needs) and considering an alternative incentive based affordable housing development process that could include density bonuses, waived/reduced development fees, modified development standards (parking) and a fast-track approval process.

- Communities and builders should work together to improve the administrative process, expedite reviews (e.g. need for rezoning, outside agency review and environmental impact reports since these add significantly

[14] Master Environmental Impact Report provides further discussion on strategies to reduce regulatory costs.
[15] Cal Gov't Code §65580(b)
[16] Federal regulations related to entitlement programs for Community Development Block Grants and HOME Funds.
[17] RHNA and Planning Directors Committee Meetings.

to processing time.), alleviate uncertainty, protect developer investments (reduce risks), anticipate the market demand for housing, and assure that a sufficient supply of land is available to meet anticipated needs (based on a 5- or 10-year rolling average).

- Support planning and fair share incentives that allow communities to meet more than their regional fair share goals for site and zoning of land for housing needed in a subregion or commute shed.

- Construction unions should use new technology to reduce costs and permit some off-site construction.

- When appropriate, local governments should take advantage of the tiering features of the Master Environmental Assessment of the RCP for local project and plan EIRs as well as the local general plan (see Chapter 15 Plan Implementation).

Strategy 2: *Financing and the need for funding*

a. **Affordable Housing Finance**

The need for new units at all income levels will exceed the number of new units for which financing and subsidies will be available. Additional funding is needed to ensure the production of new subsidized units and housing subsidies as well as the continued flow of capital to market-rate ownership housing that allows an adequate supply of low-cost, low-down payment mortgage financing. In addition, there exists a need to educate the building and private financial community on opportunities in the affordable housing submarket.

For instance, in order to address affordable housing needs in the future, an enormous commitment of capital resources and subsidies is needed in the region. If 25% of the annual average construction need of 100,000 units was devoted to developing affordable housing, one year's capital requirement would be more than $3 billion (25,000 units at an average development cost of $125,000 a unit). The subsidy needed at an average of $50,000 a unit would be more than $1 billion. However, the stark reality is that the financing and the funds needed to provide new housing opportunities are not available despite demand.

Changes in federal tax legislation and cutbacks in federal funding in the 1980s severely hindered the production of low income housing and reduced incentives for private investment. In response to federal cut-backs, creative federal-state-local-private-nonprofit partnerships have formed to provide needed funding and access to new-sources of capital for affordable housing. This housing is intended to meet the housing production and subsidy requirements of households earning less than $36,000 per year in most markets (80% of regional median family income). Because subsidized housing costs are so high, multiple-financing programs and resources are needed (*see* Table 6-2).

In general, the complexity and risk involved in holding together several resources during the development process results in costs as high as in market developments, with projects taking up to four years or more to build, a high project fallout rate, plus abandonment of this market segment to nonprofit and high administration costs.

Basically, four sources of capital are needed by nonprofit developers that initiate low-income housing proposals: 1) risk (predevelopment loans and land option funds); 2) working (administrative funds for nonprofits); 3) construction loans and "gap" financing, and: 4) permanent financing. The many players that provide capital have separate regulatory requirements and underwriting criteria. This makes resource coordination complicated and program management difficult. The emphasis on leveraging also results in too many players contributing 5% to 15% of what is needed; resulting in extremely complex financing arrangements that have public subsidies leveraging public subsidies.

Table 6-2

How Is Project Financing Put Together?

An example: Garcia Apartments

1) **Low-Income Housing Fund**
2) **First Nationwide Bank**
3) **Citibank**
4) **Federal Home Loan Bank's Affordable Housing Program**
5) **Federal tax credits (equity syndication)**
6) **Syndicator's bridge loan**
7) **Developer's bridge loan**
8) **State Rental Housing Construction Program loan**

City of Santa Monica Housing Funds:

9) **Inclusionary Housing Fee**
10) **Commercial Development Mitigation Fee**
11) **Redevelopment Tax Increment**
12) **Community Development Block Grant**

Source: Community Corporation of Santa Monica

Typically, a combination of several public sources (25%), private financing (35%) and tax credits from syndication (40%) are needed to support construction in built-up areas because of high costs.[18] The level of private financing will drop while trying to assist the low-income households to the very-low income households, since rents supporting the financing drops. The gap is filled by more public subsidy. **The key element in financing a development with affordability restrictions for households earning less than $27,000 in most markets (60% of area median income), is the federal tax credit program.**

Federal tax credits are sold to corporate or individual investors through a public or private syndication. Federal tax credits give investors significant dollar-for-dollar reductions when they invest in qualified low-income housing projects. The amount of net equity proceeds actually contributed to a project is based on the investor contributions (as a present value of the ten year credit) less the syndicator's overhead and fees, and any other syndication-related costs. A tax credit factor (net proceeds/the total 10-year tax credit allocation) is used to determine the reasonableness of the amount the syndicator sells the credit for and how much is received for the project. Depending on perceived risk and variable expenses related to the syndication, about 40 cents to 60 cents on every tax credit dollar goes toward project equity. Since the cessation of most other large scale federal and state program sources in 1990, almost every affordable housing project targeted for households earning less than 60% of area median income uses tax credits.

New resources, less emphasis on leveraging and a simplified housing assistance delivery system is needed to meet the housing production and subsidy requirements of affordable housing for modest income households. More emphasis is also needed in cost containment of affordable housing project costs for very low income households. The high cost of subsidized housing is approximately the same as the high cost of market rate housing. Underwriting very expensive projects are also not the trend of public support.(*see* Table 6-3)

[18] 1992 Annual Report, California Tax Credit Allocation Committee, dated April 1993

California Housing Task Force Study

Factors Influencing the Cost of Housing Development

- **Specific affordable projects:**
  - **Higher proportion of larger units resulting in increased construction costs.**
  - **Twice as many financing sources as market-rate projects.**
  - **Longer period between site control and construction start than typical.**
  - **Prevailing wage requirements for affordable projects adds up to 30% to cost.**
  - **Cost of project syndication using Low-Income Tax Credits adds up to 5% in project costs**
  - **Higher professional costs such as architects, engineering, and consulting fees related to additional time in predevelopment, particularly in distressed areas.**
- **Geographic:**
  - **Urban areas have higher costs than suburbanizing areas; affluent areas are more cos than distressed areas.**
  - **Urban projects use more expensive parking solutions to maximize density (structure parking).**
  - **Cost per unit for land ranges from about $2,000 per unit in outlying areas to $25,000 $40,000 in suburban and urban areas.**
  - **Fees/permits make-up about 5% of development costs.**

Ventura County	**8**	**517**	**3%**
Region	**265**	**15,61**	**100%**

b. **Local Redevelopment Housing Resources**

At the local government level redevelopment serves as the single most-important resource for addressing low- to middle-income housing needs and problems. In 1991-92 alone, redevelopment agencies in the SCAG region created 20,927 jobs, built 5,807 units of housing, and rehabilitated or constructed more than 19 million square feet of commercial, industrial and commercial buildings. But housing revenues exceed expenditures and large amounts have accumulated in agency accounts (*see* Figure 18). About $500 million dollars exist in redevelopment agency accounts, with $250 million dollars estimated to be immediately available.

Yet this amount at an average subsidy of $50,000 a unit, would only support about 4,500 units; when annually, the region needs on average 40,000 new affordable housing opportunities (1990 to 2010).

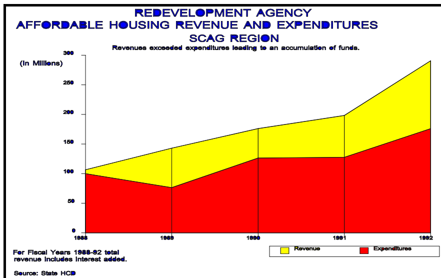
However, the early and full utilization of these available funds can play a crucial role in creating local construction jobs and new housing opportunities for lower-income households earning roughly up to $40,000 a year in most markets and moderate income households earning more. <u>These housing funds serve as the primary local resource for addressing affordable housing needs in the state and region (*see* Figure 6-19.)</u>[19]

c. **Need for New Resources**

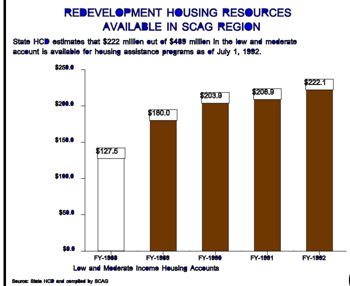
Redevelopment housing resources are by themselves insufficient to meet affordable housing need. New sources of funds from non-traditional sources and new innovative programs should be utilized for addressing housing issues. Such a non-traditional source is the *Enterprise Trust Fund*, which the 2000 Regional Partnership Housing Task Force Action Plan recommends. The fund could be used to accumulate resources for rebuilding infrastructure and revitalizing our inner cities. It proposes that an additional fee be placed on special packaged mortgages that are sold to investors with the attraction that only the interest above the rate of inflation would be taxable. This pool of money would be used to finance capital investments and services needed to improve the capacity of communities in need.[20]

[19] See <u>Redevelopment and Affordable Housing Resources</u>, October, 1993.

[20] See the Economic Component, Chapter 2 for a complete discussion.



0



0

Figure 6-19

Figure 6-18

Recommendations

- Reduce the gap between market wages paid to workers of most housing development firms and administratively set wages paid to workers on all types of federally supported projects by establishing separate residential prevailing wages for affordable housing projects. Present prevailing wage requirements raise construction costs 20 to 30%.

- The state should seek additional capital resources for local government, coordinate state programs, standardize underwriting requirements and set up an organizational structure to bring order to the multiple financing programs that are needed to make newly built housing affordable for very-low income households.

- Local redevelopment housing funds should be fully utilized in a timely, efficient and effective manner since they are the primary affordable housing resource in California.

- Support cost containment and cost reduction strategies for affordable housing, including incentives that provide the highest possible return on each tax credit dollar for investment in projects.

- Urge banking regulators to revise excess regulatory limits and underwriting criteria, that interfere with the development of competitively prices housing. (New stringent lending criteria have reduced the number of mortgage lenders and make construction financing more expensive, especially for multi-family developers).

- Support state and federal incentives for pension funds to invest directly in competitively priced multi- and single-family housing.

- Establish state and federal incentives to encourage employer-assisted housing programs.

- Support federal legislation to increase the cap on tax-exempt mortgage bonds. (The $150 million state cap that has been in effect is inadequate).

- Create a state sponsored source of credit enhancement for bond-financed projects; support establishment of a secondary market for affordable housing through credit enhancements by Fannie Mae and Freddie Mac that are sensitive to alternative underwriting standards and lower risk.

- Create an Enterprise Trust Fund.[21]

Strategy 3: *Density as a lower-cost housing option.*[22]

The suburbanization of entry-level single-family development on the edge of the region posed significant environmental, open space, endangered species habitat and agricultural use tradeoffs. Many low-cost units were lost during the decade in older urban areas where new multi-family development was concentrated. Vacancy levels were high for home ownership housing and increased markedly for newly built rental housing due to absorption problems related to its affordability. The social environment of many urban neighborhoods was a serious problem and extended beyond housing issues. A balance and mix of housing densities, and building types besides the single-family home on its own lot, is emerging in response to high housing costs in the region[23]. But it is not enough to satisfy demand.

Even though the single-family home in outlying areas was the most popular housing type constructed, there were also trends toward constructing higher-density housing and lower-density mobile homes. Both were a response to high housing costs and site availability. Higher density housing spreads fixed development costs over more units on smaller sites and mobile homes allow new construction cost efficiencies on cheaper land.

For example, density increases can reduce per-unit development costs by spreading a project's fixed costs over more units. However, when density bonuses or higher-density projects are proposed, there are often other issues such as traffic impacts and neighborhood compatibility that discourage the increase and raise the concern of neighbors. Because of differences in community receptivity about densities, developers themselves avoid proposing them. NIMBYism (Not-In-My-Backyard) is a particularly vexing problem in achieving affordable housing goals. This occurs when residents perceive lower cost housing as a threat to their own property values.[24]

---

[21] Policies or incentives to encourage investment by private industry and individuals in securities issued by the secondary mortgage market (see Enterprise Fund Proposal, Economic Element, Chapter 2).

[22] VCOG recommended to increase housing production cities and counties should consider increasing housing densities in selected areas.

[23] Subregional input Arroyo Verdugo, San Gabriel Valley and WRCOG.

[24] In Affordable and High Density Housing: Myths and Facts, dated September, 1993, the Californian Planning Roundtable discusses this and other concerns related to higher density housing. They assert, for instance, that property values are not adversely affected by

Reducing land costs in affluent and distressed areas coupled with across-the-board or other reductions in major factors that contribute to housing production costs--especially parking requirements and fees related to affordable housing--can put housing within the reach of a larger group of potential owners or renters. The selective use of higher densities in conjunction with density bonuses, financial incentives and regulatory relief can contribute significantly to project's financial feasibility. For example, if land costs are high, a selective application of density increases could be used, while regulatory streamlining could be used to alleviate the extended carrying costs incurred by lengthy approval processes.

Higher construction costs in affluent areas result from substantially higher land costs and small-site, higher-density problems that increase costs associated with structured parking and higher-density construction (*see* Figure 6-20). Higher density is assumed to be 20 to 30 units per acre or more. This is the density at which parking can no longer be accommodated in woodframe garages or surface lots, but must be accommodated in a concrete structure. Increased parking costs escalate at higher densities primarily due to lower overall efficiency of the building. More space is devoted to corridors, stairways, hallways and entrance ramps.

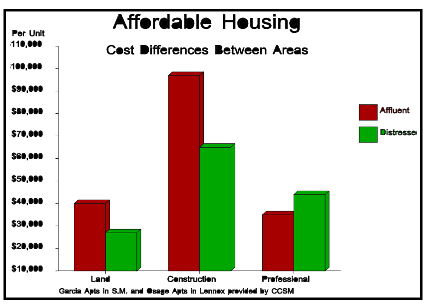


Figure 6-20

Mobile homes have the highest incidence of ownership of any building type (85%). Yet only 4% of all households in the region live in this type of lower-density housing, mostly retired senior citizens. During the 1980s, the percentage increase in mobile homes rose significantly in Southern California, especially in desert and non-metro areas. Next to single-family-attached housing, it was the second-fastest growing building type constructed in the region. Mobile homes were concentrated in Riverside, north Los Angeles and San Bernardino counties.

Single-family attached housing, which brings the tax advantage of home ownership to apartment dwellers, was rarely seen before 1970 but has grown steadily in importance. Owner-occupancy in this building type increased from 44% in 1980 to 57% 1990, while occupied units in this building type increase 75%. This is the fastest growing type of housing in the region. About 7% of all households in the region live in single-family attached housing.

Another higher-density type, multi-family housing, also increased significantly in the 1980s. Apartment construction of buildings of five units or more increased a hefty 17% and was spurred by changes in the tax law in 1986 that removed private investment incentives for apartment construction. In urban areas of Los Angeles and Orange counties, many apartments were lost through conversion to condominium use. Almost 75% of multifamily units were occupied by households in living south Los Angeles County. Almost 1.3 million households live in this type of housing in Southern California. Only occupancy in single-family detached housing on its own lot exceeds this figure. About 2.6 of the 4.9 million households in the Southland live in a home with its own yard-an "American Dream" living situation.

Currently there is a trend toward smaller, higher-density, more affordable condominiums, apartments and townhouses that have lower median costs than single-family homes. These expand the supply of affordable

lower cost and higher density housing.

owner and renter units in urban areas and reduce the housing affordability gap.

The issue of raising the level of home ownership in urban areas in the future is tied to increased single-family attached and multifamily purchase options. Home ownership contributes to economic stability by providing an equity share in the future of built-up areas. This is based on acceptance of a mix of housing types beyond the single-family home with a yard. Non-acceptance may mean a drop in overall home ownership in the maturing urban areas of the region in the years ahead.

A new housing accommodation category emerged in 1990. The "Other" category was created by the Census Bureau to describe homes that occupants did not define as a housing unit. About 51,000 homes fell into this category, with two-thirds situated in south Los Angeles County. This housing may have been illegal or non-traditional. It was an important housing resource due to its low-cost or use as lodging.

The use of a full range of density options can help accommodate a growing and changing population and avoid the proliferation of illegal lower-cost housing.

Recommendation

- Each jurisdiction should preserve single-family areas and provide sites and zoning for multifamily areas that allow affordable housing development that avoid costly structured parking and high-density construction solutions.

- Encourage compact development involving mixed density, price size and type of housing throughout the region, especially near transit facilities and in support of infill development.

- SCAG should involve itself in creating information packages and demonstrations that show how density can be selectively used in achieving local planning objectives related to building diverse types of affordable housing.

3. Goal: Housing stock maintenance and preservation.

Strategy 1: *Preserve affordability of older housing after refurbishment.*

The 1990 Census counted 5.3 million housing units in Southern California, an increase of 20 percent during the 1980s. This increase was higher than the United States increase of 16%. But almost two million units in the region (40%) had been built before 1960. These units are concentrated in older cities in south Los Angeles County (*see* Figure 6-21). The proportion of older housing is higher for rental units than owner- occupied units, especially in the greater Los Angeles area where one-third of these older units are situated.

Figure 6-21

The decade-to-decade increase in older units was 72%. Almost 900,000 units turned 30 years old during the 1980s. Not all of these units are in a state of decline with age, and many have increased in value through housing improvements, such as renovations and additions and high levels of property management. However, it is also true that older housing can be expensive to maintain, may lack modern equipment or amenities and may be located in less-desirable neighborhoods (*see* Figure 6-22).

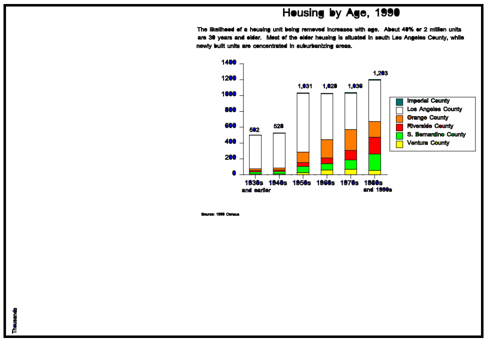


Figure 6-22

Remodeling, recycling, refurbishment or demolition occurs within the older housing stock[25]. It also is more prone to conversion and shift in tenure from owner to renter. Older single-family rental units are the most prone to removal.

The likelihood of a unit being removed from inventory increases with its age. This is what makes housing preservation so important since it extends the life of relatively affordable and less-expensive housing. It also postpones replacement with a more expensive newly built and relatively less-affordable, higher-density unit. In many areas, older low-cost unit removals exceed the production of new subsidized housing intended for the same lower-income population.

Older units are the mainstay of the affordable housing inventory. Urban reinvestment and preservation are needed to safeguard it as a future resource. Preserving the stock of existing housing units in decent neighborhoods--especially infill areas--avoids expensive costs associated with new construction and the extension of public facilities and services to outlying areas. However, infill development is often hindered by small lot sizes, high land costs and neighborhood opposition. Other types of programs can also be highly controversial, such as rent controls when upscale development drives the cost of housing beyond the reach of low-income tenants. Development moratoria on Single-Room Occupancy hotels (SROs), housing rehabilitation and code enforcement programs that may have the effect of displacing tenants living in substandard units and seismic safety upgrades can affect affordablility if there is no offsetting rent subsidy.

Recommendation

- Municipalities should adopt goals to preserve and enhance the quality of the older housing stock in the region since market incentives by themselves are insufficient to support costs of refurbishment.

- Support the use of land use controls to promote infill development or to discourage the elimination of single-room occupant housing or other forms of lower-income shelter.

4. Goal: Promote a mix of housing opportunities regionwide.

[25] SELAC subregion recommended that a subregional program be designed and implemented for the recycling of aging housing stock and related infrastructure improvements to discourage the flight to other areas.

Strategy 1: *Social equality and equal housing opportunity.*

During the 1980s, the built environment provided less of a mix of housing opportunities. Geographically, Southland society separated into areas where residents and newcomers were well-housed and ill-housed. Housing equality lessened as the isolation and concentration of poorer households in several areas of the region and in older housing continued. The sharp differences in housing costs between subregions and metropolitan market areas contributed to this pattern.

Lower-income households were concentrated in south Los Angeles County, central Orange County, the area between the Pomona and San Bernardino freeways going east toward the cities of Riverside and San Bernardino (10-60 Corridor), Oxnard-Ventura area, desert areas, and Imperial County (*see* Table 6-4 and Figure 6-23).

The areas concentrated with low-income households, a majority of which are black or Hispanic (*see* Figure 6-24), contained much older housing than elsewhere, had fewer residents who owned homes, experienced significant increases in housing values and rent, experienced high levels of crowding, and featured residents who paid more than one-third of their income for shelter.

These locations were also concentrated along transportation corridors and in central metropolitan areas where many jobs and transportation centers were located. But these areas were also characterized by greater concentrations of blight as compared to suburban locations. Low-income people in these areas mostly rent, while in desert and rural areas they often own their own homes.

From a public policy standpoint, what requirements and incentives exist for local government, voting public and all residents to make tough choices that would enable new affordable housing for owners and renters to be more broadly available and where it is needed to relieve pressure on communities housing a high share of low-income households and on environmentally sensitive areas that most would like to see undeveloped or unchanged? How does the region grapple with the problems of ill-housed families and individuals?

Table 6-4

Recently Awarded Government-Assisted Housing is Focused in the Region's Largest Central City 1988 to 1993

Jurisdiction	Total Households 1990	Low Inc. 1990 %	Regional Share %	Low Inc. Low Inc. Units Awarded %
Imperial County	**32,857**	**51%**	**1%**	**3%**
City of L.A.	**1,219,770**	**48%**	**30%**	**60%**
L.A. County Remainder	**1,774,573**	**40%**	**36%**	**15%**
Orange County	**828,849**	**29%**	**12%**	**7%**
Riverside County	**402,426**	**39%**	**8%**	**11%**
San Bernardino County	**465,877**	**39%**	**9%**	**2%**
Ventura County	**217,723**	**30%**	**4%**	**3%**
Region	**4,942,075**	**40%**	**100%**	**100%**

Share of 1988 to 1993 allocation totalling 15,600 tax credit supported low income housing.
Low income equals 80% or less of area median income.
Source: 1990 CHAS Data, Tax Credit Allocation Comm. and SCAG

One major vehicle for addressing fair share issues is the Regional Housing Needs Assessment (RHNA) program, which is mandated by the state. The other is the ballot box.

In addition to the total requirements for new construction and addressing local existing needs of ill-housed families and individuals, state law requires that a RHNA contain a planning adjustment to reduce the concentrations of lower-income households in jurisdictions where they are disproportionately represented relative to their representation in the whole regional market. Factors that must be considered include existing and anticipated job-based demand for housing by the work force and the current proportion of lower-income households.

Fair Share as a Housing Policy

The "fair share" concept evolved from the concern that government-assisted housin was focused in central and inner cities, places with high concentrations of low-incom households. These communities were bearing the social service cost burden while othe communities neglected these needs and contributed to an increase in the economi disparity between jurisdictions by exclusionary zoning and other land use practices that

- **decreased the percentage of residents able to afford an averaged-priced home du to high costs;**
- **restricted affordable housing opportunities while attracting jobs for modes income employees;**
- **reduced the fiscal capacity of localities to house the poor by not sharing in th responsibility to accept some portion of existing and future need for low-income housing**
- **make it increasingly difficult for communities with a large stock of low-incom units from attracting market priced housing to provide an economic mix of households.**

The severity of these problems led to federal and state fair share housing planning an performance requirements.

Without an adjustment policy, households earning less than $36,000 (lower income) in most subregions would be locked into present locations by the planning process. The chief objective is to bring communities closer to the regional average for the percentage of households that have lower incomes. Communities with too many lower-income households would be brought down, while communities with below-average lower-income numbers would be brought up. The policy decision of SCAG members is that each community should close one-quarter of the gap ("25%" of the way) between their current percentage and their regional average. This small adjustment allows for the continuation of local differences, and ensures that planning policy will nudge communities toward greater equality over time.

Planning policy may come in conflict with the ballot box wishes of local residents. Some critics contend that high housing costs are unduly influenced by local regulations - mainly zoning regulations that require low densities - because there is a perception that the property value of homes would decline if lower cost units are nearby (state HCD studies show it may not), fears that lower-income neighbors bring social problems, and that the higher-density often required by affordable housing brings traffic, congestion and other quality-of-life difficulties. Underlying these perceptions are the fiscal realities that housing is a tax-consuming and not a tax- generating activity for the local governments in built-up areas.

The California Environmental Quality Act (CEQA) also appears to emphasize a project-oriented review system rather than one that accounts for regional environmental costs and impacts. For instance, if densities or zoning are reduced below levels that allow construction of a balanced share of subregional growth, there is no mechanism to ask what the environmental costs will be to the region if housing must instead be built elsewhere.

Housing policy and affordable housing siting issues may also be difficult to resolve in areas where a smaller group in the general population is the majority group in the voting population. A generation gap exists between younger renters, mostly minority households, and older homeowners, mostly non-Hispanic whites. These groups have substantially different age-related housing demands and cultural backgrounds. This may make the acceptance of new affordable rental and first-time homeowner opportunities in areas with higher home ownership rates controversial, especially if an Article 34 referendum is needed to publicly finance the development.

For example, in 1992, the two-tiered nature of California society became increasingly evident in the political arena as well as in terms of residential housing patterns. A Field Institute study on political demography found that homeowners were more likely to be registered to vote than renters. Currently, 71% of residents who own their own home are registered, while 56% of the state's renters are registered. Whereas 41% of all adults are Hispanic, black, Asian or some other minority, just 19% of all voters were from these voting groups in the June 1992 California Primary. The median voting age is 50 years old and rising. Non-citizen immigrants are not eligible to vote.

A mix of housing opportunities by building type and income level is needed to assure social equity and equal housing opportunity[26]. The lack of a socioeconomic mix of households throughout the region also affects the quality of life for everyone as well as the balance of housing supply available to the work force. All levels of government and the private sector should be involved in developing goals, actions and policies that address these equal housing opportunity issues.

[26]Recommended by Arroyo Verdugo, San Gabriel Valley, and WRCOG

Figure 6-23

Figure 6-24

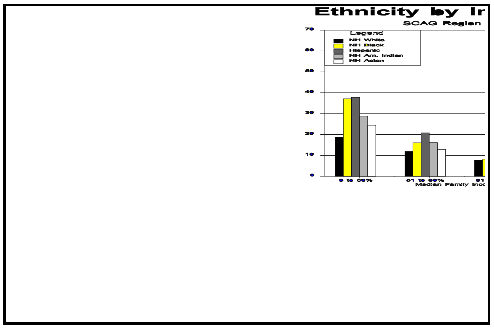


Figure 6-25

Recommendations

- Every community should ensure a mix of housing opportunities and building types in order to achieve equal housing opportunity, balanced development and social diversity goals.

- Support regional and subregional public education programs that address voter apprehensions about affordable housing, promote understanding about cultural and racial diversity and show that all residents need to view their housing needs as connected to the needs of other households in the market place.